



U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St, S.W
Washington, D.C. 20410

September 15, 2003

IG HAS SEEN
DATE: 9/15/03

Honorable Joseph E. Schmitz
Inspector General
U.S. Department of Defense
400 Army Navy Drive
Arlington, Virginia 22202-2884

Re: **Letter** of Comments, report on the External Quality Control **Review** of the Department of Defense's Office of Inspector General's Audit Organization

Dear **Mr. Schmitz**:

We have reviewed the system of quality control for the audit function of the Department of Defense (**DoD**), Office of **Inspector General (OIG)**, in effect for the year ended March 31, 2003 and have issued our unqualified report thereon dated September 9, 2003. This letter should be read in conjunction with that report.

Our review **was** for the purpose of reporting whether the **OIG's** internal quality control **was** designed in accordance with the quality standards established by the President's Council on **Integrity** and Efficiency (**PCIE**) and was being complied with for the year **reviewed** to provide reasonable assurance of material **compliance** with professional auditing standards in the conduct of its audits. We conducted our review in **conformity** with standards and guidelines established by the **PCIE**. Our review would not necessarily **disclose** all weaknesses in the system or all **instances** of noncompliance with it because our **review was** based on selective tests.

There are inherent limitations that should be **recognized** in considering the potential effectiveness of any system of quality control. In the performance of most **control** procedures, departures can result from **misunderstanding** of the instructions, mistakes of **judgment**, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures **may** become inadequate because of changes in conditions or that the degree of compliance with procedures may **deteriorate**.

As a result of our review, we have the following **comments**, which were considered in **determining** our opinion **set** forth in our report dated September 9, 2003. This **letter** does not change that **report**.

NOTEWORTHY ACCOMPLISHMENTS

Numerous **positive** audit practices were observed about the **OIG** audit organization. Most importantly, the audit staff showed a high level of professionalism and **expertise**. The audit staff displayed a thorough knowledge during discussions with us concerning the audits we reviewed,

in the final report.

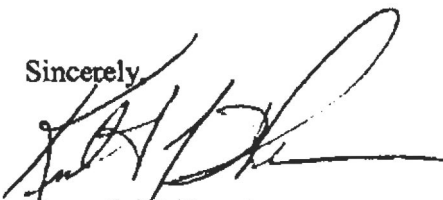
Recommendation:

The Office of Inspector General audit management should take appropriate actions such as conducting training sessions and emphasizing during future internal quality control reviews the areas of (a) timely supervision of audit work and (b) adequate referencing of audit reports.

A copy of your response to the report and letter of comments is provided as an enclosure.

I want to express our appreciation for the cooperation and courtesies extended by your office to the review team. The team received full cooperation from the audit staff.

Sincerely,



Kenneth M. Donohue
Inspector General

Enclosure

audit procedures and policies, and the audit organization. There **were** noteworthy practices and controls instituted to help ensure audits were performed in accordance with professional standards.

OBSERVATIONS

Timely Supervisory Review of Work

The **OIG's policies** and procedures require that supervisors **be** involved and review work on **an** on-going basis throughout the audit. The working papers must contain documented **evidence** of supervisory review throughout the project and not just **at** the project end. We applied a **30-day** review period **as** criteria for determining timeliness of supervisory review. On 4 of the 14 audits reviewed, our review showed **workpapers** either were not approved, not submitted for review, or **reviewed** untimely. Details are as follows:

For one audit, our **review** of **142** work papers **disclosed** that 44 of the **142** work papers were **either** (1) not approved, (2) not submitted for review, or (3) reviewed untimely. Five of the 44 work papers had been submitted, but not approved; **20** had not **been** submitted for review; and 19 work papers **were** reviewed untimely.

- **On** the second audit, **we found** that 39 of **49** work papers supporting the audit **were reviewed** untimely. The reviews for **the** 39 work papers **ranged** from 35 to 259 days after completion and averaged 173 days. The audit was suspended for a portion of this time. For the third audit with issues involving supervision, we found **46** of 301 work papers were **not** approved timely.
- **On** the fourth audit, we found **that 21** of 353 work papers were reviewed later than 30 days **after** the work paper was **completed**. The time elapsed between **the** prepared date and the reviewed date for the 21 work papers ranged from 41 to 144 days.

According to the supervisors involved, this occurred **because** either (1) the project manager was reassigned, (2) **workpapers** were not completed, or (3) supervisors **were** involved in other ongoing audits, which delayed their reviews to the end of the audit. Supervisory **review** of working **papers** is an integral part of the internal quality **control** system. Untimely review of working **papers** can result in **unnecessary** work **completed** by the auditor. When review is delayed until the end of the audit, there is a greater risk that **problems** with the audit work will not be identified until it is too late to **correct**. In addition, incomplete workpapers can result in incomplete **documentation** of the work performed to support **significant** conclusions and judgments.

Reports Were not Adequately Referenced

For every audit, **the OIG's quality** control policies and procedures require the **referencing** of factual data in audit reports to the **supporting** evidence in working papers. To help ensure **the** accuracy of draft and final reports, all statements of fact must be referenced to the supporting evidence in the working papers. Our review showed that 2 of 14 audits had either inaccurate **cross-referencing** of the report to the supporting work papers, factual **information** that was not cross-referenced, or changes **specified** during the independent referencing that were not included



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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AUG 18 2003

Mr. James A. Heist
Assistant Inspector General for Audit
U.S. Department of Housing and Urban Development
451 7th St., S.W.
Washington, D.C. 20410

Dear Mr. Heist:


This is in reply to your letter of August 7, 2003, which provided the draft opinion and letter of comments from your quality control review of the Office of the Inspector General of the **Department** of Defense.

We appreciate the in-depth review that your **staff** performed on our quality control **function**. The quality of the peer review **team** and their professionalism will help our organization **continue** to improve our quality control program. We also appreciate their **positive comments** on the numerous audit practices that we initiated **during** the past 2 years.

Your observations concerning the supervisory review process and report referencing are **helpful**. Moreover, we concur with your recommendations and plan to revise our training sessions and increase the emphasis of **future** internal quality control reviews to ensure that working **papers** are approved in a timelier manner and more accurately referenced to reports.

If you have any questions on our comments, please contact me or Mr. David A. Brinkman, Director for Audit **Followup** and Technical Support Directorate at **703-604-8905**.

Sincerely,


Francis E. Reardon
Deputy Inspector General
for Auditing